$50.00 ANNUALLY
40 Letters Per Year

DOW THEORY LETTERS

"The Market as Interpreted under the Dow Theory"

RICHARD RUSSELL
P. O. Box 15196
San Diego 15, California

Registered with the Securities and Exchange Commission

Writing a stock market Letter is, at best, a frustrating business. One must attempt to provide intelligent analysis, offer useful advice, draw attention to seemingly important developments -- and all within the framework of a field where one can never be absolutely certain. I seldom complete a Letter without experiencing a certain feelingly of hopelessness. Have I been clear enough? Has the Letter gone out too soon -- too late? Will the ephemeral market destroy all my inferences an hour after the Letters are in the mails? Most important of all, will subscribers be able to act (by themselves) on the information I have provided?

Last week, right or wrong, I came into the market (part commitment on the afternoon of May 1, part commitment "at the opening" on May 2). My reasoning was as follows:

(1) On April 30 the market looked "scary" as selling continued. The Industrial Average closed the day at 665.33, exactly 16 points above the critical (and oft-mentioned) halfway point of the entire 1960-61 rise -- which is 650. Perhaps coincidentally, the 1960 decline stopped exactly 14 points above the halfway point (552) of the entire 1957-60 rise -- at 566.05. It seemed to me that again support was coming in just above the 50% level.

(2) On May 1 the market opened sharply lower, and the situation began to appear "panicky". Then support in the way of impressive buying (for the first time this year) came in around noon of May 1, as the Industrial Average touched an inter-day hourly low of 659.94. This important buying (many large blocks) succeeded in turning the market to the upside, and the market closed higher with the Industrial Average at 671.24.

(3) At noon on May 1 I reasoned, if they break 650, they're finished. If I buy here, I may be buying with "big money" at the bottom. If I'm wrong (and this still holds) I'll sell them on a breaking of 650, and my losses will be worth the certainty that we're going into a bear market. If we are going into a major bear market, my cash will steadily increase in purchasing power, and I won't mind paying "the cost of insurance.

(4) As shown on the chart, page 1 of Letter 178, the most recent decline was the third major decline since the highs -- and the most precipitous. Many reactions end on a third precipitous decline.

(5) The odd-lot ratios were beginning to swing to less buying. On May 30 and April 1 odd-lotters actually swung to actual net selling. In the meantime, odd-lot shorting was exploding. Starting with April 26 odd-lot shorts climbed over the 5,000 share mark. On May 1 odd-lot shorts careened to 10,620 shares. This was the second time on the record book that odd-lot shorts had risen to the ten-thousand mark. The only higher figure is 10,940 on October 21, 1957. On the strength of this monumental odd-lot shorting, I bought more during the first hour of May 2.

(6) On May 1 new lows rose to 364 for the day. This was equal to almost 1/3 of all the issues traded. It had a "climactic" feel about it.

(7) I have often talked about the principle of "averaging up". I felt that a position was warranted in case the market started up and proceeded to "get away" on the upside. When averaging up -- it is comforting to have bought a part of your commitment at or near the lows.

(8) Last but not least, the psychology around May 1 was such that many "name" analysts were talking about a collapse. Yet at no time during the entire decline did the market seem to get "out of hand" on the downside. The decline seemed orderly, with "bids" coming in all the way down. Moreover, many stocks resisted the decline impressively. In a real bear market, everything is swept away with the downside momentum. There are few if any "holdouts". This has not been the case during the 1962 decline.

Based on calls and Letters received here, I have reason to believe that most of my subscribers took various and sundry positions over the past few days. My own feeling is that these positions will be justified. The "insurance policy," or the point of capital conservation in case we are wrong, is this:

If a decline succeeds in breaking the two recent lows (Industrials 665.33, Rails 138.38) on heavy volume (perhaps upwards of 5 million shares), I will be a seller. If Industrials then decisively break the 650 level, I will consider that the great primary trend has turned down. Barring the above action, I believe positions are now warranted for a rise that could procede along the lines outlined in the past three Letters.

LATE NOTE: As this Letter is being completed (morning of May 4, Friday), the market is going into a decline. If, on this decline, one or both Averages can hold above the April 30 lows (Industrials - 665.33, Rails - 138.33), I believe purchases or additional purchases will be in order. For stock selections, please refer to Letter 178. I might add that in general, the oils have (so far) looked considerably stronger than the market.

* * * * * *